



## Why Did Canopy Growth, Aurora Cannabis and Its Pot Peers Surge Yesterday?

### Description

Cannabis companies such as **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC), **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB), **Aphria**, and many others were on a roll yesterday, [following comments by](#) democratic vice-presidential candidate Kamala Harris and Vermont's Republican Governor Phil Scott.

During the vice-presidential debate, Senator Harris claimed if elected to power the Joe Biden government will decriminalize marijuana. Further, Scott confirmed he would allow the legalization of cannabis to move ahead in the state of Vermont.

These two comments were enough to fuel a rally for Aurora Cannabis and a host of other pot stocks. Leading the pack was **Charlotte's Web Holdings** that surged 15.8%, followed by Canopy Growth, **OrganiGram**, **Curaleaf**, **Aphria**, **Aurora Cannabis**, and **Cronos Group** at 13%, 11.5%, 10.5%, 10.3%, 10%, and 8.9%, respectively.

The **Horizons Marijuana Life Sciences ETF** gained 6.5% while other notable stock movements include **Village Farms** and **Hexo** that rose 7.1% and 6.5% respectively.

### The recent rally is not sustainable

We can see that the upward spiral in marijuana stocks was driven purely on market sentiment especially in the case of the statement made by Senator Harris. First, the democrats need to ensure that they are voted to power. Further, decriminalizing marijuana is not the same as legalizing it.

Make no mistake: cannabis companies are bound to move significantly higher if and when the U.S. legalizes recreational use at the federal level. However, this process might be at least a couple of years away.

While the recent comments from political figures bode well for investors, it might just provide temporary relief given the host of structural challenges the companies have faced in recent times.

Pot heavyweights Canopy Growth and Aurora Cannabis have seen their stock prices sink for close to

two years now. This elongated bull run has been driven by the slow rollout of retail stores in Canada, higher tax rates that has enabled a thriving black market, regulatory issues, health concerns related to vaping, and many others.

This has led to oversupply, high inventory levels, million-dollar write-downs, low profitability, and significant cash burn for Aurora Cannabis and other most other marijuana companies.

Aurora Cannabis recently announced its fiscal fourth quarter of 2020 results and reported revenue of \$72 million, a sequential decline of 5%. The company also provided a tepid outlook [resulting in the stock declining by](#) 50% last month.

Aurora reported a \$1.6 billion inventory write-down which indicates it has grossly paid for acquisitions. Further, its aim to reach break-even EBITDA by the December quarter seems like a distant dream given its slowing sales growth and an EBITDA loss of \$34 million in the June quarter.

## The Foolish takeaway

While there is progress made in terms of the legalization of cannabis products in a few countries, it has been more slow than steady. The U.S. is a massive market and several marijuana companies are already establishing a supply chain there to ensure they have a presence when pot products are legalized.

Canopy Growth, for example, has positioned itself to expand quickly south of the border and could be one of the top-performing stocks if legalization expectations come true.

### CATEGORY

1. Cannabis Stocks
2. Investing

### TICKERS GLOBAL

1. NASDAQ:ACB (Aurora Cannabis)
2. NASDAQ:CGC (Canopy Growth)
3. TSX:ACB (Aurora Cannabis)
4. TSX:WEED (Canopy Growth)

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**Date**

2025/08/23

**Date Created**

2020/10/09

**Author**

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